RAMOTSHERE MOILOA LOCAL MUNICIPALITY

"NW 385"

MID-YEAR BUDGET PERFORMANCE ASSESSMENT REPORT

"ADJUSTMENT BUDGET"

FOR 2013/2014 FINANCIAL YEAR

1. INTRODUCTION

In terms of Section 72(1) and 52 (d) of the Municipal Finance Act no.56 of 2003, the Accounting Officer must by 25 January of each year assess the performance of the municipality during the first half of the financial year. A report on such an assessment must, in terms of Section 72 (1) of the MFMA must be submitted to the Mayor, Provincial Treasury and the National Treasury.

Once the Mayor has considered the report, he must submit the report to Council by 31 January in terms Section 54 of the MFMA.

The mid-year performance reports and supporting tables of Ramotshere Moiloa Local Municipality, prepared in accordance with MFMA Circular 13 and the Municipal Budget Reporting Regulations, to illustrate the performance are attached in Annexures A to F.

CHAPTER 1: BUDGET AND FINANCIAL PERFORMANCE

The details for the budget and financial performance are included as Annexure A (Municipal In-year Financial Report) and Annexure B (Schedule C).

CHAPTER 2: ADJUSTMENT BUDGET

Regulation 23 of the Municipal and Reporting Regulations provides, *inter alia* for the following:

"An adjustment budget may be tabled in the Municipal Council at any time after the Mid-year Budget and Performance Assessment has been tabled in Council, but not later than February of each year.

Furthermore, except under certain circumstances only one adjustment budget may be tabled in Council during a financial year."

The Adjustment budget as presented also results in changes to SDBIP and as a result, the SDBIP have been adjusted accordingly".

Accordingly as detailed in the attached in year financial and budget period, report on adjustment to the budget will be submitted for consideration by Council on 30th January 2014.

On overall the adjustment budget reflects a total downward adjustment on expenditure by R52m from the approved spending of R255m to R203m on operations as well as downward adjustment of R8m on capital spending from an approved expenditure of R104m to R96m.This is in line with the revised source funding especially from the internal sources.

The attached Schedule c is the municipality's adjustment budget for the financial year ending 30 June 2014.

EXPENDITURE

(i) Employee related costs

The approved budget provided employee costs of at least 32% of our operational budget which is in line with the National Treasury norms, and as such employee related costs are currently at 13% against the approved annual budget of R82m, this is considered to be reasonable. At the end of the mid-year, our employee costs were up to 54% of the total spending of the municipality, this was a result of the municipality having filled most of the critical positions especially in our finance department, and four level 4 positions (accountants) were filled in the first quarter of the financial year. Further critical positions however have been incorporated in the adjustment budget.

(ii) Remuneration to Councillors

This expenditure is currently at 25% of the approved budget and is considered reasonable. The impact in the budget will be affected by the upper limits adjustment

should it be approved within the current financial year. However looking at our position against the annual budget, we are confident that there will be no need to make a material adjustment.

(iii) Depreciation and Asset Impairment

As at mid-year the municipality has not yet made an assessment on the possibility of assets impairment in the absence of the maintenance plan in place, however a reliable estimate may be made once the assets consultants on site have made conditional assessment of both our movable and immovable assets. This can only be completed towards the year end as it is difficult to currently make an assessment given no benchmark on prior year to make a comparison to. An adjustment has been made for the depreciation of assets thou, based on the history of 2012/13 to the amount of R10m.

(iv) Finance Charges

Currently we have paid up to 26% of our planned expenditure, this is due to the fact the timing of our payments is only at the beginning of the financial year and at the end of the financial year. More expenditure is expected to be incurred towards the end of the financial year.

(v) Materials and Bulk Purchases

Up to 38% of our planned purchases have been, this deemed reasonable as our peak months for electricity usage is only coming in the next three months, from April to June as such we expect more purchases on electricity against increased usage of electricity. Furthermore once NERSA has tabled their tariffs for the 2014/15 financial year, should the tariffs be hiked then the cost of electricity from Eskom will increase and as such we will purchase at higher price.

(vi) Other Expenditure

These were originally budgeted up to 405 of the total operating budget and as at mid-year we had spent up to 26% and we consider this to be reasonable and in line with our planned spending.

REVENUE

i. Property Rates

Council is made aware of the fact that we are currently battling with collection of revenue from property rates and other service charges, due to disputes arising from the valuation roll. The valuation roll which came into effect from July 2013 has been challenged by many property owners and as such has negatively impacted the collection thereof. Normal billing on these customers' accounts is going on as normal nevertheless. We have engaged the Provincial Dept. on MPRA and held several meetings with them on how to resolve these disputes and we are currently working on the proposed avenues, some of them including:

(i) Condonation by the MEC to allow disputes that came in late and,
(ii) Conducting a full supplementary valuation roll and should this produce results in favour of the municipality, objectors will carry the costs of this valuation.

It has also emerged that the MPRA steering committee wasn't active and as such we have sought advice from the Province to select a new committee which should comprise of mainly these individuals, CFO, Town planner, Manager Revenue and the property valuators. This will be implemented within the next quarter of this financial year. As it is we are having accrued revenue on paper which is not cash-backed.

(ii) Service charges

Overall performance on our service charges is depicted as follows:

- ✓ **Electricity**: Year to date, we have billed up to 75% of our budgeted bill, however we are having challenges in collecting this revenue, mainly due to the problems associated with valuation roll. To curb this going forward we are planning on installing prepaid meters on all business properties to reduce our losses on electricity revenue.

- ✓ **Water**: Year to date revenue has been recorded at 52% of the planned revenue of R13.6m; this is considered reasonable as it is in line with our approved plan.

- ✓ **Refuse and Sanitation**: Of the combined total of R6.8m of refuse and sanitation, we have accrued a maximum of 54% of this revenue as at mid-year. This is considered reasonable and in line with the approved budget.

- ✓ **Operational Transfers recognised**: The approved budget made a provision of R93m on equitable share in line with the DORA allocations, and to date we have received all the allocation from the National Treasury within the prescribed time frames. However it should be noted that the original budget did not make a provision for the R13m that was an unapproved roll over from the 2011/12 on the Neighbourhood and Municipal Infrastructure grant. This amount is being offset against out equitable share and as a result the municipality's equitable share budget of R93m is effectively R13m less. This amount is being deducted in four instalments ending in July 2014. As a result of negative cash flows experienced by the municipality, management had written to the National Treasury for it to consider a reduction in these instalments in order to cushion the financial problems we find ourselves in. This amount has been included in our balance sheet as a liability to National Treasury as is being reduced by the amount withheld by National Treasury on tranches from our equitable share.

- ✓ **Other Revenue**

  Included in other revenue was a provision for R21m, this provision was not source backed and as a result it has been adjusted to zero. There are no bases to include this in our budget and as such it has been written off.

The attached summary of the In-year reports together with the drat adjustment budget give a broader picture of our actual versus budgeted expenditure and current state of affairs.

MUNICIPAL MANAGER